



Jerry Sanders
Mayor, City of San Diego

PENSION, RETIREE HEALTHCARE AND OTHER REFORMS

PENSION REFORM

- **Funding for the Pension System:** After the courts refused to roll back employee pension benefits, the Mayor established a financially sound schedule for paying off the debt. The Mayor proposed and funded an aggressive 20-year amortization schedule that includes money to pay down the principal, not just interest as was done previously.
- **Limiting Future Benefit Increases:** In 2006, the Mayor proposed and the voters approved a ballot proposition requiring voter approval for any future pension benefit increases.
- **New Pension Plan:** To lower the City's financial risks, reduce pension costs and eliminate excessive perks, Mayor Sanders secured an agreement on a new pension plan for non-public safety employees hired after July 1, 2009. It features:
 - **Lower Financial Risks for City:** Because the new plan significantly lowers the benefit that future employees are guaranteed, the financial risks to the City associated with market volatility are greatly reduced. Currently, the City assumes approximately 75% of the investment risk associated with employees' retirement benefits. The plan reduces that to 57%.
 - **Lower Costs for City:** The plan will also lower the City's annual costs. It also places a greater reliance on "defined contribution" components as a way to reduce taxpayers' financial exposure. The expected long-term annual costs for General members is reduced almost in half from 16% of pay to 8.5% of pay. If General members were covered under this plan today, taxpayers would save \$25 million per year.
 - **Ends Costly Perks:** To further safeguard taxpayer funds, the plan eliminates costly perks like basing pension benefits on the highest one year of pay, rewarding retirements prior to age 62 or having the City "pick up" a portion of the employees' pension contribution. At age 65 and after a thirty-year career with the City, employees were able to receive 119% of their pay in retirement. The new plan lowers the benefit to a more conservative 80%, if employees fully participate in saving in their defined contribution plan for their retirement.

- **New Pension Plan for Police Employees:** City imposed new retirement factors on police officers hired after July 1, 2009 to that will save taxpayer dollars and disincentivize early retirement.

DEFERRED RETIREMENT OPTION PLAN (DROP) REFORM

- **Eliminated DROP for new employees:** The City of San Diego eliminated the DROP program for all employees hired after July 1, 2005.
- **Eliminating DROP for Current Employees:** Mayor Sanders has proposed and continues to advocate for the elimination of DROP for those employees hired before July 1, 2005 who have not yet enrolled in DROP.
- **Reducing the Rate of Return on DROP Accounts and Annuities:** Mayor Sanders secured new provisions in the 2009 contracts with police and fire labor organizations that permit the DROP interest rate to be set by SDCERS. (The current rate of 7.75 has been reduced to 3.54 percent for DROP accounts and 5.0 percent for DROP annuities). This, combined with previously agreed upon terms regarding DROP with the remaining three unions, will reduce the city's FY 11 ARC payment by \$3 million and its unfunded liability by \$310 million over time.

RETIREE HEALTHCARE REFORM

- In 2009 contract negotiations, the City froze or suspended the automatic escalator on the retiree health benefit at \$740 a month or \$8880 a year. This freeze or suspension will give the city and labor organizations time to study and develop solutions to deal with the retiree health \$1.3 billion unfunded liability. This freeze will reduce the retiree healthcare fund's unfunded liability by \$350 million.
- General member employees hired after July 1, 2009 are now required to pay .25% of pay into a retiree health trust and the City will match that contribution. This is a defined contribution plan that eliminates the City's liability and allows for a benefit to be dealt with intelligently.

COMPENSATION REFORM

- **Freezing Employee Salaries:** As part of the new labor contracts approved in 2009, Mayor Sanders proposed and the City Council approved a 6 percent compensation cut for all city employees. By not increasing salaries, the city's ARC to its pension fund will be reduced by \$12 million and its unfunded liability will be reduced by \$100 million.

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